

The November 23, 2015, meeting was called to order at 9:05 a.m. in the Media Conference Room at the Department of Revenue by Pat Albro, Chair of the Committee.

In attendance were: Pat Albro, designee of the Property Tax Administrator; Lori Johnson, private sector appraiser; Rob Ogden, representing the county assessors; and John Wiechmann, representing the low income housing industry. Also from the Department of Revenue, Property Assessment Division, were Jon Cannon counsel for the Committee and Jim Koch note taker.

Ms. Albro read the open meetings law provisions as applicable to the meeting.

Ms. Albro asked for public comments from others in attendance either in person or by telephone. Lori Huebner, of Cass County, was in attendance by telephone. There were no public comments at this time.

The minutes of the November 12, 2015, were read. Rob Ogden moved to approve the minutes as read. John Wiechmann seconded the motion. Lori Johnson, aye; Rob Ogden, aye; John Wiechmann, aye; and, Pat Albro, aye. 4 ayes, no nays the motion passed.

Rob Ogden presented excerpts from an article that cautioned against the use of an internal rate of return in place of an equity return rate in the band of investment method to calculate an overall rate for assessing real property. Among the several questions this article raised, Mr. Ogden expressed concerns over the use of a 6.6% mortgage rate considering inconsistency in the reporting process this year. All agreed that more complete information than currently received should be expected for the projects. More specifically he was concerned that the loan term, the interest on the loan and other information was inconsistently reported. The information was unclear whether the loan was a construction loan, a bridge loan or whether it represented the permanent financing for the project.

The Committee members agree that by meeting early in the process better instruction can be provided to receive more consistent information for the next assessment cycle.

Ms. Johnson questioned the use of the equity return rate in the band of investment when the credit cannot be considered income to the property by law. As an appraiser she does not see this to be an appropriate comparison. She would suggest the band of investment show 100% debt with no equity and no return on equity in the formula.

Mr. Wiechmann pointed out that this is the limitation built in to the legislation. The band of investment should be 20% debt and 80% equity and that the, "yield for equity shall be calculated using the data on investor returns gathered by the committee."

The Committee discussed the Pre-tax and After-tax return information Mr. Wiechmann provided from Midwest Housing Equity Group. The after-tax return information for 15 and 20 years was determined to be relevant. Mr. Ogden thought the trend in the rates for the most recent years would support an equity rate of 6.5%.

Using those numbers Mr. Ogden suggested a band of investment formula of:

Mortgage Weight of	30% at	6.6% for a weighted rate of	.0198
Equity Weight of	70% at	6.5% for a weighted rate of	<u>.0455</u>
Total Overall Rate			.0653

Ms. Johnson used a three-year analysis which is common in appraisal. Based on her analysis the following formula was indicated:

Mortgage Weight of	30% at	6.6% for a weighted rate of	.0198
Equity Weight of	70% at	6.6% for a weighted rate of	<u>.0459</u>
Total Overall Rate			.0657

After a brief discussion, Rob Ogden moved the Committee recommendation to read:

Debt of	30% at	6.6% for a weighted rate of	.0198
Equity of	70% at	6.5% for a weighted rate of	<u>.0455</u>
Total Overall Rate			.0653

The total of 6.53% was rounded to 6.5% to be used statewide as an ‘unloaded’ rate. This motion was seconded by Ms. Johnson. All voted in favor of the motion. The motion passed.

Mr. Ogden moved to have Mr. Cannon prepare the “Report to Assessors” with the substantive information describing the determination of the overall rate. The report will provide direction on the income to be used and the need to recognize the local effective tax rate in the capitalization rate which is a recognized mass appraisal practice for tax purposes. The motion was seconded by Ms. Johnson. Albro, aye; Johnson, aye; Ogden, aye; and Wiechmann, aye. The motion carried.

The Committee will plan to meet Thursday, January 14, 2016, at 9:00 a.m. in the Department of Revenue. (A room will be determined later.)

Motion to adjourn was made by Mr. Wiechmann; seconded by Ms. Johnson. Albro, aye; Johnson, aye; Ogden, aye; and Wiechmann, aye. The motion carried.

The meeting adjourned at 10:30 a.m.